

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF GAS AND ELECTRIC RATES)	
OF THE UNION LIGHT, HEAT AND POWER)	CASE NO. 90-041
COMPANY)	

O R D E R

IT IS ORDERED that Kentucky Legal Services shall file the original and 12 copies of the following information with the Commission by August 1, 1990, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible.

1. Mr. Colton proposes that The Union Light Heat and Power Company ("ULH&P") implement an Energy Assurance Program ("EAP") for its low income customers. Provide a detailed description of any review by Mr. Colton to determine whether a utility implementing the EAP would be complying with all applicable Kentucky statutes and regulations.

2. KRS 278.160(2) states, "No utility shall charge, demand, collect or receive from any person a greater or less compensation for any service rendered or to be rendered than that prescribed in

its filed schedules, and no person shall receive any service from any utility for a compensation greater or less than that prescribed in such schedules." Provide and explain Mr. Colton's position on whether the EAP complies with this statute.

3. KRS 278.170(1) states, "No utility shall, as to rates or service, give any unreasonable preference or advantage to any person or subject any person to any unreasonable prejudice or disadvantage. . . ." Provide and explain Mr. Colton's position on whether the EAP complies with this statute.

4. Mr. Colton criticizes ULH&P's late payment charge, and recommends that it be eliminated, citing, among other things, ULH&P's data response that it has no information that would support a finding that its late payment charge accelerates payments. Provide the results of any study or analysis performed by, or in the possession of, Mr. Colton on the effectiveness of a late payment charge as an incentive for timely payment by utility customers.

5. Explain whether it is Mr. Colton's recommendation that gas rates should be increased to offset the late payment charge revenues that would be lost under his recommendation.

Done at Frankfort, Kentucky, this 18th day of July, 1990.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF GAS AND ELECTRIC RATES)	
OF THE UNION LIGHT, HEAT AND POWER)	CASE NO. 90-041
COMPANY)	

O R D E R

IT IS ORDERED that the Attorney General of Kentucky, by and through his Utility and Rate Intervention Division ("AG"), shall file the original and 12 copies of the following information with the Commission by August 1, 1990, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible.

1. The testimony of Thomas C. DeWard, page 6, line 14, refers to "on-site review or rate case audit." Explain whether Mr. DeWard is suggesting a compliance review, a financial audit, an economy/efficiency review, or some other examination.

2. Regarding the proposed adjustment to exclude cash working capital from rate base, pages 12 and 13 of Mr. DeWard's testimony, provide the following information:

a. Explain whether Mr. DeWard believes that ULH&P has no need for cash working capital. Include any analysis performed by Mr. DeWard which supports this determination.

b. Explain why the formula methodology of calculating a cash working capital allowance is outdated.

c. Indicate the cash working capital requirement that Mr. DeWard has determined to be appropriate for ULH&P. Include the methodology needed to calculate the requirement.

3. Regarding the proposed adjustment to the propane inventory, pages 13 and 14 of Mr. DeWard's testimony, provide the following information:

a. Explain why Mr. DeWard looked at the usage for the test year and the two previous years, instead of a longer historic period.

b. Explain whether Mr. DeWard has determined the reason why the propane inventory has been maintained at the levels reported for 1987 through 1989.

c. Indicate what information Mr. DeWard has used to determine a reasonable level of propane inventory and how the 1990 projected usage is representative of the next two years.

d. Indicate what research Mr. DeWard has performed to determine what constitutes adequate inventory levels of propane for a gas utility.

4. Concerning the proposed adjustment to gas stored underground, page 14 of Mr. DeWard's testimony, provide the following information:

a. The case number reference for the Columbia Gas of Kentucky, Inc. rate case where a 12-month average was used for gas stored underground.

b. As shown on WPB-5.1g, the highest levels of gas stored underground were reported for September, October, November, and December of the test year. Considering this fact, explain how the use of a 12-month average eliminates the inflation of the inventory levels.

5. Concerning the proposed adjustment to accumulated deferred income taxes, pages 14 and 15 of Mr. DeWard's testimony, provide the following information:

a. Explain in detail why tax timing differences which generate deferred tax credits are appropriate for ratemaking purposes, while tax timing differences which generate deferred tax debits are not.

b. Explain in detail how ratepayers have benefited from ULH&P's tax versus book treatment of deferred tax credits which are related to tax timing differences.

c. Explain whether ratepayers will benefit in the future when the tax timing differences which generated the deferred tax debits reverse.

6. Concerning the proposed adjustment to overtime pay, page 24 of Mr. DeWard's testimony, provide the following information:

a. Indicate whether Mr. DeWard has determined any reasons for the increase in overtime pay in 1989 as compared to 1987 and 1988.

b. Explain why the overtime pay level for 1989 was excluded from the average used to determine the proposed adjustment.

c. Indicate whether Mr. DeWard has considered the impact changes in wage levels occurring over the past three years would have on overtime pay.

d. Indicate whether Mr. DeWard has determined the impact ULH&P's policies on time and one-half and double time would have on overtime pay.

e. Indicate whether Mr. DeWard has included an analysis of the straight-time and overtime hours, as shown on Schedule C-11.1 of the application, in his determination of the proposed adjustment. Include the results of this analysis.

f. Indicate whether Mr. DeWard has reviewed the employee levels at ULH&P over the three year period.

g. On Schedule 16 of Mr. DeWard's testimony, the calculation of the allocation to operating and maintenance expenses is based on data taken from page 355 of ULH&P's 1989 FERC Form 2, the response to Data Request No. 13a, AG First Set, page 137 of 167. Explain why the allocation figures did not include a \$9,309,221 reduction shown on page 355 as Total Other Accounts.

7. Concerning the proposed adjustments to rental expense and rental expense - electric, page 26 of Mr. DeWard's testimony, provide the following information:

a. Explain in detail the reasons for using a 5 percent factor to increase 1988 expenses.

b. Explain in detail the analysis performed by Mr. DeWard which establishes that the level of rental expenses incurred in 1988 are reasonable levels of expense.

8. Concerning the proposed adjustment to federal and state income tax expense, pages 27 and 28 and Schedule 24 of Mr. DeWard's testimony, provide the following information:

a. Explain in detail why the interest deduction has been calculated using the rate base instead of the capital.

b. On Schedule 1 of Mr. DeWard's testimony, the combined rate base for ULH&P is \$132,633,019. On Schedule 3, the capital totals \$125,826,171. Indicate whether Mr. DeWard has reconciled this difference of \$6,806,848 and explain the impact such a difference would have on the interest deduction.

9. Regarding the testimony of Mr. DeWard and the proposed adjustments to gas revenues shown on Exhibit TCD-1, Schedules 10, 11, 12, provide the following information:

a. An explanation of any means by which ULH&P can recover a higher rate of return from Columbia Gas Transmission than the return of 9.84 percent authorized by FERC.

b. The three adjustments are premised on the assumption that 1988 is more representative of ULH&P's operations on a going forward basis than 1989. Provide the results of any analysis or inquiry performed by Mr. DeWard which explain why volumes transported for Columbia declined from 1988 to 1989.

c. Explain how Mr. DeWard determined that 1988 volumes and revenues are more representative of future activity than 1989 volumes and revenues.

10. Regarding the testimony of Mr. DeWard and the proposed adjustments to electric purchased power expenses shown on Exhibit TCD-1, Schedules 13, 14, and 15, provide the following information:

a. The energy charges ULH&P incurs from CG&E are based on an energy rate of 2.432 cents per KWH which includes CG&E's fuel cost plus other variable costs. Explain why Mr. DeWard believes that the 1.9091 cents per KWH fuel component in ULH&P's base rates should be compared to the total energy component included in ULH&P's purchased power expense.

b. Explain how Mr. DeWard would perform a true-up of all energy costs and what effect that would have on the level of fuel cost included in ULH&P's base rates.

c. The adjustment on Schedule 14 reduces FAC expense to match FAC revenue. Provide the rationale for proposing an expense decrease as opposed to a revenue increase.

d. The adjustment on Schedule 15 reflects the lag between cost incurrence and cost recovery and the cold weather of December 1989. Identify and explain any analysis Mr. DeWard performed of the December 1989 weather as it relates to electric sales versus weather and sales in December 1988.

e. Provide any analysis performed by Mr. DeWard which attempts to identify any factors, other than weather, that impacted ULH&P's December 1989 and January 1990 sales.

11. Regarding the testimony of Mr. Osterberg and his discussion of customer charges, provide the following information:

a. On pages 14, 15, and 16 of his testimony, Mr. Osterberg identifies three different customer charges applicable to ULH&P's residential class. Explain whether Mr. Osterberg is recommending a specific customer charge for ULH&P or making a general recommendation that the customer charge should be less than that proposed by ULH&P.

b. On pages 18 and 19 of his testimony, Mr. Osterberg quotes from a Commission Order in Columbia Gas Rate Case No. 10201, in which revenue allocation and rate design changes were restricted as result of a settlement reached in Columbia's preceding rate case. Since there is no similar restriction in this proceeding, explain how the Order in Case No. 10201 impacts revenue allocation and rate design issues in this case.

12. Regarding Mr. Osterberg's discussion of ULH&P's late payment charge, provide the following information:

a. The results of any study or analysis performed by, or in the possession of, Mr. Osterberg regarding the effectiveness of a late payment penalty as an incentive for timely payment by utility customers.

b. Explain whether it is Mr. Osterberg's recommendation that gas rates should be increased to offset the revenue from late payment charges that would be lost under his recommendation.

13. Regarding Mr. Osterberg's discussion of ULH&P's proposed changes in gas commodity charges, provide the following information:

a. Mr. Osterberg takes issue with ULH&P's reliance on its cost-of-service study as the basis for proposing a separate residential rate RS and for proposing a declining block rate structure for rate GS. Provide the results of any alternative study performed by Mr. Osterberg which support his proposal to retain rate GS as it presently exists with a flat rate.

b. Mr. Osterberg cites the rate of 77.4 cents per Mcf charged for transportation during the second half of the test year and states that present rates seem to support a rate level greater than 70 cents. Assuming that 7.4 cents per MCF of the present rate reflects the recovery of take-or-pay charges as ordered by the Commission, explain if Mr. Osterberg's position on this issue is changed.

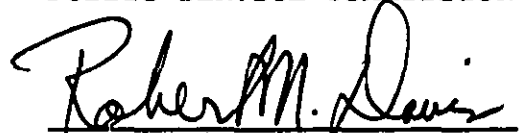
14. Did Mr. Osterberg calculate the effect that his proposed changes in ULH&P's cost-of-service allocation factors would have on class rates of return as shown on Van Curen's Exhibit PVC-GCOS Schedule 1, page 1? If so, what were the results of his calculations? Provide all applicable workpapers.

Done at Frankfort, Kentucky, this 18th day of July, 1990.

ATTEST:


Executive Director

PUBLIC SERVICE COMMISSION


For the Commission